

Governmental Standards Board (GASB), Statement No. 66, Technical Corrections (GASB No. 66)

Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62 (GASB No. 66)

Governmental Accounting Standards Board (GASB) issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* (GASB No. 66), to resolve conflicting guidance that was previously issued in two pronouncements:

- Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB No. 66 is effective for the fiscal year ending June 30, 2014.

Amendments to GASB No. 10, Use of Funds that Report Risk Financing Activities

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB No. 10), requires that a governmental entity's risk financing activities be accounted for in either the general fund or an internal service fund. GASB No. 66 amended GASB No. 10 by removing the provision that limited the use of a single fund (either general fund or internal service fund) to account for the government entity's risk financing activities. GASB No. 66 concluded that governments should base their decision on the use of the governmental fund type (as defined in GASB No. 54) on the nature of the activity to be reported for risk financing activities. In addition, GASB No. 66 also allows the use of a special revenue fund if the risk financing activities meet the definition of a special revenue fund.

Amendment to GASB No. 62 and No. 13, Accounting for Operating Leases with Scheduled Rent Increases

GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases* (GASB No. 13), requires governments that enter into operating leases with scheduled rent increases which include rental payment in one or more years that is artificially low, to recognize payments received from the operating lease using either a straight-line basis over the lease term or by the estimated fair value of the rental. However, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62), implied that the use of the fair value method was prohibited when accounting for operating leases with scheduled rent increases for rent holidays. GASB No. 66 clarified that professional judgment should be used to determine whether rental payments are based on economic factors relating to property or an inducement to the lessee.

Amendment to GASB No. 62, Purchase of a Loan or a Group of Loans

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB No. 48), paragraph 13, requires that transferee government recognize a receivable acquired at the purchase price. However, GASB

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No. 62 brought in guidance provided in FASB 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, which required the purchaser to recognize a premium or discount for the difference between the initial investment and the principal amount of the loans. GASB No. 66 clarified that the purchase of a loan or group of loans should be reported at the acquisition cost, which is the government's initial investment. In addition, GASB No. 66 amended GASB No. 62 by restating paragraph 44 to state that, "the initial investment in a purchased loan or group of loans should include the amount paid to the seller plus any fees paid by or less any fees received. In addition, GASB No. 66 clarified that in situations in which a government acquires receivables from another government to provide liquidity for the selling government, the acquiring government should recognize receivables or loans acquired at the acquisition cost.

Amendment to GASB No. 62 Servicing Fees relating to Mortgage Loans

GASB No. 48, paragraph 13, requires that when the transferor retains the servicing rights to mortgage loans that have been sold, the gain or loss between the proceeds and the carrying value of the mortgage loans receivables sold should be recognized without an adjustment to the sales price. However, GASB No. 62 required that when a transferor retains the servicing rights to mortgage loans that have been sold, the gain or loss should be adjusted to recognize the difference between a normal (current) serving fee and the fee that is stipulated in the sale agreement. GASB No. 66 reaffirmed the guidance provided in GASB No. 48.